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SUBJECT: CHINA INFLATION: ASSET AND CONSUMER PRICE PRESSURE IN  
FOCUS DURING THE "GOLDEN WEEK" JUST BEFORE PARTY CONGRESS

REF: (A) Beijing 5578  
(B) Shanghai 553  
(C) Hong Kong 2598  
(D) Shanghai 534  
(E) Beijing 6286

#### SUMMARY

1. (SBU) Rising asset and consumer prices, and Central Government reactions to the increases, continued to draw attention during the recently concluded "Golden Week" period. With the 17th Party Congress set to open on Monday, October 15, inflation remains a predominant domestic economic concern. Illustrating the intense public interest in rising prices, one local Beijing newspaper featured a special section on October 2 that took a comprehensive look at price increases in the housing market and stock market as well as continued CPI inflation and the impact of recent shocks on urbanites. END SUMMARY

#### NEW SURVEYS REFLECT CONCERNS

2. (U) On the cusp of the October 1 National Day Holiday -- one of China's "Golden Weeks" when offices are closed for seven days in order to stimulate consumption through shopping and travel -- government surveys indicated that rising prices are causing a fall in satisfaction with the economy for the first time in recent memory. The People's Bank of China (PBOC) reported on September 20 that:

--The 3rd Quarter National Bankers Survey showed that the bankers' confidence index had decreased to its lowest level historically with 83 percent of bankers stating that they are concerned about the economy;

--The 3rd Quarter Entrepreneurs survey similarly demonstrated that confidence is slipping with the entrepreneurs' confidence index falling by 6.4 percent; and

--In the 3rd Quarter Urban Depositors Survey, nearly half (47.1 percent) of respondents said prices are "too high."

3. (U) Facing mounting concerns on prices, the National Development Reform Commission (NDRC), together with seven other ministries, issued a notice on September 21 which emphasized the importance of price stability during the Mid-Autumn Festival and National Day Holiday. The circular cited the recent surge in the Consumer Price Index (CPI), which rose by 6.5 percent year-on-year in August (Ref A, B, C), the highest rate in over ten years, and recommended measures for alleviating price pressures during the holidays.

Chinese economists have expressed concerns about price stability since the summer with one prominent China Academy of Social Sciences (CASS) researcher stating in mid-August that China is "entering an inflationary period" (Ref A).

#### HOUSING MARKET DRAWS RENEWED ATTENTION

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14. (U) Late September also brought new Central Government pronouncements on housing prices with the NDRC announcing that housing prices have continued to accelerate in 2007. Over recent months, housing prices rose in 70 large and medium cities as follows:

##### MONTH PERCENTAGE INCREASE (yoy)

April	5.4
May	6.4
June	7.1
July	7.5
August	8.2

The PBOC and China Banking Regulatory Commission (CBRC) attracted widespread public attention on September 27 when they jointly issued a notice that seeks to strengthen mortgage loan management in an effort to curb the rise in housing prices and speculation in the property market. The PBOC-CBRC notice requires commercial banks to increase mortgage loan interest rates to 1.1 times the benchmark one-year lending rate and also requires higher down payments on houses.

#### PBOC PREDICTS CONTINUED INFLATION

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15. (U) The PBOC Monetary Policy Committee stated after its 3rd Quarter Conference on September 28 that excess investment growth, China's trade surplus and excess loan issuance continue to exert inflationary pressure on prices. (Note: The PBOC Monetary Committee's 2nd Quarter Report suggested that inflationary pressures already were spreading rapidly to other consumer items. End Note.) A PBOC Research Bureau report also estimated that the CPI would increase 4.6 percent for 2007 and 5 percent in the first half of 2008 while GDP would increase 11.6 percent for the year and 10.8 percent during the first half of 2008.

#### STOCKS SURGING TO NEW HIGHS

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16. (SBU) Immediately after the holiday, the stock market again made front page news on October 9, breaking the 5700 level and setting a new high. The Shanghai Composite Index opened on October 10 at 5742 and rose as high as 5860 before dropping to close at 5771.42. The market surpassed 5000 just six weeks ago (Ref D).

#### PARTY CONGRESS TO OPEN ON OCTOBER 15

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17. (SBU) Inflation remains a predominant domestic economic concern as the 17th Party Congress prepares to open on October 15 (Ref E). One popular local newspaper in Beijing (Xin Jing Bao) greeted readers on October 2 with a special section on prices, demonstrating the growing public concern about increasing consumer and asset prices. The articles highlighted both price spikes in consumer products (especially food) and rapidly increasing asset prices in the housing and stock markets and detailed the impact of price increases on urban residents -- by all accounts, a continued political concern as the Congress opens.

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